

The operating results for the first half of 1973 were influenced unfavourably by two main factors. The first was the moving and start-up costs of our Motor Division to a new plant in Cambridge, Ontario. All these costs were charged to operations as they were incurred and consequently this Division shows a substantial drop in earnings when compared to the same period in the previous year.

The second was in the area of Consumer Electronics. The Company incurred extra marketing costs in order to encourage the movement of inventory resulting in part from the backup of production created by the strike last November which, in combination with competitive pressures further emphasized by the U.S. DISC program, have resulted in lower margins.

There continues to be a strong demand for color television, and our 1974 line has been enthusiastically endorsed by our dealers. There has, however, been a fall-off in the demand for black and white television. There is also a good demand for our new stereo and component lines which are showing an increase in volume over the previous year. In the home furnishings area, we are particularly gratified by the excellent acceptance of our broad range of products. There has been a substantial improvement in both sales and profits in this area and production capacity is the main limiting factor for 1973. The Motor Division has completed its move into the new plant in Cambridge and the operating staff is now adjusting to the new facilities. The demand for the products produced by this Division and the actual orders on hand indicate strong and continued growth in this field. Other operations, such as our Appliance Division, our Consumer Service Division and the Broadcasting Subsidiary, operated by Electrohome Communications Limited, are showing excellent progress with both sales and net earnings reporting increases in keeping with the corporate results.

The outlook for the second half of 1973 continues to be favourable. The new product lines, recently introduced in the consumer electronics field, are being well received and this, coupled with a reasonable inventory and increased production capacity, should result in the Company being able to provide the needs of the market during the fall selling season.

C. A. POLLOCK
Chairman of the Board



Electrohome's new electrostatic air cleaner is 'basically' the same type of equipment used in hospital allergy wards. It filters dust, allergens, pollen and smoke from the air. Designed as a one-room unit, and portable, it retails for approximately \$149.

AR79



an interim report
to shareholders

June 30, 1973

TO OUR SHAREHOLDERS:

We are pleased to report the consolidated operating results for the first six months of 1973 and to advise that the general trends indicated in the report to shareholders for the first quarter are continuing with little change; that is to say, the Company is experiencing a return to the more normal marketing pattern on a seasonal basis, which results in relatively

low earnings for the second quarter. It also provides the Company with an opportunity to build inventory for the more active selling seasons later in the year.

Sales for the first six months of 1973 amounted to \$48,219,000, an increase of 23.4 percent over the previous year. Net earnings after taxes amounted to \$1,742,000, slightly higher than the earnings for the same

period last year. This represents earnings per share of 57 cents on 2,984,350 shares outstanding. It should also be noted that the earnings have been calculated using the new corporate tax rates which were recently approved by the Federal Government. As was noted in our report for the first quarter, our planning for 1973 was based on the assumption that the new tax rates would apply.

CONSOLIDATED BALANCE SHEET as at June 30, 1973

	1973 (in thousands)	1972
ASSETS		
CURRENT ASSETS		
Cash	\$ 376	\$ 537
Accounts Receivable	18,446	14,655
Inventories	28,941	18,151
Prepaid expenses	999	538
Income Taxes Recoverable	99	—
	<u>48,861</u>	<u>33,881</u>
FIXED ASSETS		
Land, buildings, machinery and equipment, at cost	23,858	19,046
Less: Accumulated depreciation	<u>9,648</u>	<u>8,606</u>
	<u>14,210</u>	<u>10,440</u>
Excess of cost over Book Value at date of acquiring shares of subsidiaries, less amortization	<u>2,487</u>	<u>2,553</u>
TOTAL ASSETS	<u>\$ 65,558</u>	<u>\$ 46,874</u>

	1973 (in thousands)	1972
LIABILITIES		
CURRENT LIABILITIES		
Bank Advances secured	\$ 23,544	\$ 10,509
Accounts payable and accrued liabilities	9,613	8,006
Sales taxes payable	701	593
Income and other taxes payable	—	621
Deferred service contract income	609	380
Principal instalments due within one year on long-term debt	<u>641</u>	<u>39</u>
	<u>35,108</u>	<u>20,148</u>
LONG-TERM DEBT	<u>8,131</u>	<u>8,612</u>
DEFERRED INCOME TAXES	<u>982</u>	<u>708</u>

SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
16,256 5% Preference Shares (16,908- 1972)	1,625	1,691
2,984,350 Common Shares (2,980,900 - 1972)	<u>3,785</u>	<u>3,734</u>
	<u>5,410</u>	<u>5,425</u>
RETAINED EARNINGS	<u>15,927</u>	<u>11,981</u>
	<u>21,337</u>	<u>17,406</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$ 65,558</u>	<u>\$ 46,874</u>

CONSOLIDATED STATEMENT OF INCOME for six months ended June 30, 1973

	1973 (in thousands)	1972
SALES	\$ 48,219	\$ 39,076 X
Cost of sales, selling, administrative and financial expenses	<u>43,984</u>	<u>34,875</u>
Income before undernoted items	<u>4,235</u>	<u>4,201</u>
Depreciation	719	565
Amortization of excess cost over book value of subsidiaries	33	33
Interest on long-term debt	<u>347</u>	<u>113</u>
	<u>1,099</u>	<u>711</u>
Income before taxes	3,136	3,490
Taxes on income	<u>1,394</u>	<u>1,753</u>
NET INCOME	<u>\$ 1,742</u>	<u>\$ 1,737</u> X

CONSOLIDATED STATEMENT OF RETAINED EARNINGS for six months ended June 30, 1973

	1973 (in thousands)	1972
Balance at beginning of year	\$ 14,452	\$ 10,516
Add: Net income for six months	1,742	1,737
Discount on redemption of preferred shares	<u>4</u>	<u>1</u>
	<u>16,198</u>	<u>12,254</u>
Deduct: Dividends paid - preference shares	47	49
- common shares	<u>224</u>	<u>224</u>
BALANCE AT END OF JUNE 30	<u>\$ 15,927</u>	<u>\$ 11,981</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS for six months ended June 30, 1973

	1973 (in thousands)	1972
SOURCE OF FUNDS		
Operations		
Net income for six months	\$ 1,742	\$ 1,737
Depreciation	719	565
Amortization of excess cost over book value	33	33
Deferred income tax increase (reduction)	<u>100</u>	<u>(31)</u>
	<u>2,594</u>	<u>2,304</u>
Increase in long-term debt:		
- mortgages assumed	161	453
- on acquisition of subsidiary	—	152
- net debenture refinancing	<u>—</u>	<u>5,010</u>
	<u>161</u>	<u>5,615</u>
Sale of fixed assets	34	3
Discount on redemption of preferred shares	4	1
Proceeds from issue of common shares	<u>19</u>	<u>275</u>
	<u>57</u>	<u>279</u>
	<u>\$ 2,812</u>	<u>\$ 8,198</u>

APPLICATION OF FUNDS		
Excess of cost over book value at date of acquiring shares of subsidiary	—	208
Additions to fixed assets:		
- on acquisition of subsidiary	—	320
- other	2,380	2,075
Reduction of long-term debt	23	35
Dividends paid - preference shares	47	49
- common shares	224	224
Preference shares purchased for cancellation	<u>26</u>	<u>6</u>
	<u>2,700</u>	<u>2,917</u>

INCREASE IN WORKING CAPITAL	112	5,281
WORKING CAPITAL AT BEGINNING OF PERIOD	<u>13,641</u>	<u>8,452</u>
WORKING CAPITAL AT JUNE 30	<u>\$ 13,753</u>	<u>\$ 13,733</u>

ELECTROHOME Limited and Subsidiaries